

**DIRECT TESTIMONY**

**OF**

**FRED L. RUCKMAN**

**ICC NO. 01-0488; 0489; 0490; 0491; 0492**

ILLINOIS  
COMMERCE COMMISSION  
SEP 3 10 45 AM '02  
CHIEF CLERK'S OFFICE

**Q. Please state your name and business address.**

A. My name is Fred L. Ruckman. My business address is Illinois-American, 300 N. Water Works Drive, P. O. Box 24040, Belleville, IL 62223-9040.

**Q. Mr. Ruckman, what is your present position?**

A. I am Vice President and Treasurer of Illinois-American Water Company ("Illinois-American", "IAWC" or the "Company") and Iowa-American Water Company.

**Q. As Vice President / Treasurer, what are your responsibilities?**

A. As Vice President and Treasurer, I am responsible for the Finance, Cash Management, Customer Service, Budgeting, Rates and Growth Activities functions of the Company.

**Q. Please discuss your educational and business background.**

A. I earned a Bachelor of Science degree, with a major in accounting, from Eastern Illinois University in 1971. I was employed by Northern Illinois Water Corporation ("NIWC") beginning April, 1972 as a Staff Accountant. In April, 1980, I was promoted to Comptroller and elected Secretary of NIWC. In 1994, I was elected to NIWC's Board of Directors, and in 1996, I was promoted to the position of Vice President. On January 1, 2000, I became Vice President and Treasurer of Illinois-American.

26 **Q. Are you familiar with the proceedings in these dockets?**

27 A. Yes. I am aware that these proceedings have been instituted by the Illinois Commerce  
28 Commission in order to determine if Crystal Clear Water Company, Highland Shores  
29 Water Company, McHenry Shores Water Company, Northern Illinois Utilities, Inc.,  
30 and/or Wonder Lake Water Company, which I will collectively refer to hereafter as the  
31 "small companies", should be acquired by a capable public utility as defined in Section 4-  
32 502 of the Illinois Public Utilities Act ("Act").

33 **Q. Do you agree with Mr. Johnson that Illinois-American is a capable public utility**  
34 **under Section 4-502 of the Public Utilities Act?**

35 A. I concur with Mr. Johnson and with the reasons stated in his testimony. One of the  
36 requirements, however, is that the capable public utility "agree" to the terms of the  
37 acquisition. I will further discuss this requirement later in my testimony.

38 **Q. What is the current rate base of the small companies?**

39 A. Attached hereto as IAWC Exhibit FLR-2 is a table which shows the rate base of each of  
40 the five companies. In the aggregate, as of December 31, 2001, the rate base was a  
41 negative \$32,171. As will be discussed, the amounts shown on the Exhibit are subject to  
42 adjustment based on IAWC's further review of data supplied by the small companies.

43 **Q. What are the current rates of the small companies?**

44 A. Attached hereto as IAWC Exhibit FLR-3 is a table which shows the current rates of each  
45 of the systems.

46 **Q. What would be the effect of the needed improvements addressed by Mr. Johnson on**  
47 **the rates of the small companies?**

48 A. The rates would have to be significantly increased. If the Commission deems that  
49 acquisition by Illinois-American is proper, Illinois-American requests that the  
50 Commission declare that it may include in rate base the acquisition price and capital  
51 investment necessary to bring the systems up to standard, as detailed by Mr. Johnson.  
52 Illinois-American also should be permitted to recover related depreciation expense and  
53 the level of operating expense that is consistent with proper operation of the systems.  
54 Illinois-American would propose a separate tariff under Section 4-502(h) for the service  
55 areas presently being served by the small companies. Under the separate tariff, these  
56 areas would be placed initially on the Chicago-Metro Division's rates, so long as the rates  
57 provide a reasonable return on the acquisition price/capital investment, and allow  
58 recovery of all related depreciation and other operating expenses. Illinois-American  
59 requests that it be allowed to institute a surcharge, at such time as the investment in the  
60 small companies increases rate base to a level where the Chicago-Metro Division rates do  
61 not provide a reasonable rate of return and cover depreciation and other expenses. Based  
62 upon the level of investment which would be required and the data furnished to date to  
63 IAWC, IAWC projects that the average residential bill resulting from the ten-year  
64 improvement program discussed by Mr. Johnson, assuming IAWC is able (as is  
65 appropriate) to acquire the small companies at no cost, would increase from \$16.69 to  
66 \$42.03, or by 252%, plus appropriate fire protection charges.

67 **Q. Is Illinois-American's willing to acquire the small companies if a ratemaking**  
68 **approach of the type you describe is not approved?**

69 A. No. A "capable public utility", as defined under Section 4-502, must "agree" to acquire a  
70 small utility under specified terms and conditions. The approval in this proceeding of a  
71 rate mechanism satisfactory to Illinois-American, which will provide adequate revenue to  
72 cover the costs resulting from the acquisition and operation of these systems is a  
73 pre-condition to Illinois-American's agreement to acquire. Illinois-American hopes to  
74 discuss the detailed components of the rate mechanism with the Commission Staff and  
75 ultimately come to a mutually agreeable approach that allows implementation of rates in  
76 a more timely and less costly manner than through a traditional rate case, and yet  
77 preserves Staff's ability to audit the reasonableness of proposed rates.

78 **Q. Would the rate effect discussed above be applicable if the small companies could not**  
79 **be acquired at no cost?**

80 A. No. In that case, the increase in rates would be even greater.

81 **Q. You indicate that certain data provided by the small companies is subject to further**  
82 **review. Would you further discuss this point?**

83 A. Yes. In developing IAWC Exhibits FLR-2 and FLR-3, the Company has relied on  
84 accounting data supplied by the small companies. In the course of reviewing the data,  
85 IAWC has identified concerns with regard to the accuracy of certain of the data and  
86 intends to further review the data and available information. For present purposes, the  
87 Exhibits should be considered illustrative of the effect of Illinois-American's proposal.

88           The precise amounts shown and calculation of the proposed surcharge shown on the two  
89           Exhibits, however, may require adjustment.

90   **Q.   Do you concur with Mr. Johnson's conclusion that the small companies have no**  
91           **value?**

92   A.   Yes.  Given the condition of the systems and the need to replace substantially all of the  
93           facilities in order to be in a position to provide adequate, reliable, and safe potable water  
94           service, and the fact that two of the systems are surrounded by municipal systems, I do  
95           not believe that the systems have any value.

96   **Q.   Do you also share Mr. Johnson's opinion in regard to Illinois-American's reasons**  
97           **for proposing to acquire the small companies?**

98   A.   Yes.  Illinois-American believes that, as the largest public water utility in the State of  
99           Illinois, it has a responsibility to consider acquisitions of small troubled systems in  
100          appropriate circumstances.  Illinois-American, however, would not proceed with any  
101          transaction that harms existing customers, employees, or shareholders.

102   **Q.   Does this conclude your direct testimony?**

103   A.   Yes.